

Minutes

Meeting of Special Commission to Investigate Other Post-Employment Benefits

9th Floor Conference Room, Ashburton Place, Boston, MA

May 31, 2012

Commission Members in Attendance

Henry Dormitzer, Chairman of the Special Commission

Shawn Duhamel, Retired State, County and Municipal Employees Association of Massachusetts

Dolores Mitchell, Executive Director of the Group Insurance Commission

Greg Mennis, Assistant Secretary for Fiscal Policy, Executive Office for Administration and Finance, Designee of Secretary of Administration & Finance Jay Gonzalez

Al Gordon, Designee of Treasurer Steven Grossman

Senator Michael R. Knapik

Senator John A. Hart

Presenters

Pam Kocher, Director of Local Policy, Executive Office for Administration and Finance

Michael V. O'Brien, City Manager, City of Worcester, Massachusetts

Nancy McGovern, Legislative Agent, AFSCME – Council 93

William Rehrey, Executive Vice President, RSCMEA

Henry W. Henderson, Associate Director, Public Finance Ratings, Standard & Poor's

Minutes

Minutes from the last meeting were approved. July 18th and August 21st were held for the next two meetings.

Greg Mennis started the commission presentation by giving follow-up answers to questions from the last meeting. He discussed data from Aon Hewitt on retiree health cost details, and drew attention to a supplementary handout called “Age-Sex Report Pool 1 FY2007-FY2011,” from the Group Insurance Commission. He also called attention to Appendix 1 of the Commission presentation, which shows that there are liabilities of \$2.8 billion for Group 1, pre-65 employees. He then discussed part-time creditable service, and said that municipalities have some flexibility around this, that information can be found on the PERAC website, and that more information on this will be available at later meetings. Mr. Mennis said that in the private sector, about 8% of employers offered insurance, and most of them are large employers.

Pam Kocher, Director of Local Policy, Executive Office for Administration and Finance, then gave an overview of the current state of municipal healthcare reform. She explained that the new legislation enacted in July 2011 allows change to happen faster, by setting a negotiating period and instituting a closure panel. She said that seventy-five communities used this process, and only one of those seventy-five went to the closure panel. She said that these communities had 77 million in premium savings which represent savings for both city and employee premiums. The law mandates that some of the money saved under municipal health care negotiations is for unions, and the savings are almost equally split between employees and the employer. She also mentioned that some communities came to health care agreements outside of the new law after the Governor’s proposal was announced, and that the reform might not be right for all communities.

Mr. Mennis said that these savings should generate at least a 5% reduction in OPEB liabilities. He said PERAC has been collecting municipal OPEB valuations and would do further analysis upon receiving supplemental budget funding. Mr. Mennis then showed a graph showing change in OPEB liabilities from a previous estimate of \$25 billion, with an increase of \$7 billion based on more recent information and a decrease of \$2 billion from municipal healthcare reform. Shawn Duhamel, Retired State, County and Municipal Employees Association of Massachusetts, asked if the \$2 billion in savings was actual or forecasted data, and Mr. Mennis said that it was what is currently known but that the number will probably end up being larger. Mr. Mennis also noted that if all municipalities change their accounting metrics based on the assumption of funding, the liability could drop to around 20 billion, but this would not change the economics of the liability. There was a question about the assumed yearly inflation rate, which Mr. Mennis said was 5% per person over the long-term term with higher rates historically and in the near-term. He said that the long-term growth estimates implicitly assume measures to contain healthcare cost growth. Henry Dormitzer, Chairman of the Special Commission, reminded attendees that this analysis applied to municipalities.

Mr. Mennis then discussed the Health Care Security Trust. PRIM now manages this money, which represents 3% of assets, and he said that based on 2011 legislation there is a phase-in for the funds received from the tobacco settlement money into the Trust’s \$384 million investment fund – the State Retiree Benefits Trust Fund. Municipalities can now use State Retiree Benefit

Trust Fund. In response to a question, Mr. Mennis clarified that the tobacco settlement money was on top of the \$384 million and clarified that all of the information he discussed in this slide except for the expansion of the SRBTF only applied to the state.

Mr. Dormitzer said the list of presenters would change order and reviewed the Commission's mandate. He said that this issue was about expenses, and showed two slides about healthcare expenses. The first discussed normal cost, which, in response to a question, he said was what an employee has earned accrued over time, and for Massachusetts, this was on average 16%. The next slide showed that this 16% number was much higher than national median, and he said that the cost is high. He then said that costs for municipalities for health insurance have gone up from 12% to 19% of property tax revenue, that retiree health costs in municipalities are estimated at \$700 M, and that it would take 1.75B to 2B for the Annual Required Contributions to be met. He showed a slide saying that inflation adjusted costs for retiree health insurance have gone up by \$250 million over the past decade, and said that there is pressure on budgets to fund these benefits.

Michael V. O'Brien, City Manager for Worcester, then gave his presentation. He said the city had made progress over time to stabilize the system, that most people are unaware of OPEB, and that it took nine years for the Council to understand the urgency of the situation. As of last year, Worcester had more retirees than actives, and he said there had been recent layoffs and a fall in local aid. He discussed funding pension liability and PAYGO for OPEB. He said if they wanted to fund this over thirty years, they would have to spend \$54 million, and that they are currently underfunding by almost \$32 million. He spoke about OPEB reforms which have lowered the liability, including requesting that retirees pay more. He said that they avoided raising taxes by six million by requiring mandatory Medicare and said other measures reduced cost.

Pensions are in more stable condition because of changing benefits with years of service and changing them based on salary while retiree health insurance costs carry uncertainty about inflation. He suggested considering Massachusetts Taxpayer Foundation recommendations to pro-rate benefits, increase the eligibility age, increase eligibility hours, lower employer contributions, and end coverage for dependents. Shawn Duhamel asked about the 9% medical inflation number and why it was greater than the state number, and Mr. O'Brien said it was their historical number. Mr. Duhamel asked if the Group Insurance Commission was considered, and Mr. O'Brien said it was considered but he knew people wanted local authority. Mr. O'Brien also entertained questions about the impact on bond ratings and benefit design decision. Mr. Mennis gave a response to Mr. Duhamel's earlier question and said that the 9% inflation rate was similar to other municipality historical rates, and the state was lower at about 7% to 8% over the past 10 years, but most valuations suggest the numbers can't always stay at this level because these cost growth rates are unsustainable. Mr. Duhamel said that the numbers were very different and lead to very different reactions. Mr. Mennis offered to provide some context to the different figures for the next meeting.

Nancy McGovern, Legislative Agent for AFSCME – Council 93, then gave her presentation. She said that it was important to note that time is necessary for existing reforms to be taken into account, that retirees are not able to contribute more, and that maintaining benefits is necessary. This is a health care cost problem and many retirees won't be able to live on retirement income. The state had made a commitment to all employees in 2006. Pension and benefits are necessary for a good workforce, and employees contribute 10-50% of premiums. People 55 to 65 have high costs of healthcare, include disabled workers, and have difficulty finding a new job with benefits. The problem is high costs not high benefits, so the solution is reducing costs rather than changing cost distributions; payment reform and more attention to wellness programs are supported by organized labor. Ms. McGovern then spoke of personal conversations with retirees about difficulty with health changes.

Bill Rehrey, Executive Vice President of RSCMEA then gave his presentation, which focused on the retiree costs. Data on retiree shares indicate that in 57% of municipalities, retirees pay over 20% of the HMO contributions. Mr. Rehrey discussed how most municipalities have mandatory Medicare, and that this lowers cost and that retirees pay a premium for Medicare, and that his organization supported municipalities that paid a portion of the Part B premium. He discussed their survey of retiree premiums, and said the average Fiscal Year 2011 costs were \$1,020, and that the average annual local pension was \$21,900. In response to a question about private sector average and whether Social Security was included, Mr. Rehrey said it was not included, and Mr. Duhamel said they could get these numbers, and that many don't get any benefits. Mr. Dormitzer said more detailed information could be gotten later. Mr. Rehrey then gave profiles for Framingham and Clinton and said it was important to consider how costs impacted both municipalities and retirees, and gave profiles for Monson, which has high costs, and Salem.

Henry W. Henderson, Associate Director, Public Finance Ratings, Standard & Poor's then gave his presentation. Massachusetts is above average for total liability per capita, but comparing across states was difficult given variability in who is in the plan, differences in assumptions, and different inflation numbers. Debt, pension, and OPEB were evaluated separately and given equal consideration. Mr. Henderson showed a slide with the areas focused on for state OPEB: the liability size, benefits, budget impact, and being capable and wanting to lower costs. Ms. Mitchell asked what PAYGO was. When asked how much time there was to solve the problem, Mr. Henderson said it depended and it was harder to pay attention to when it was less urgent but that it can't be ignored forever, and that there would be more pressure on budgets if delayed for longer.

Mr. Dormitzer said that the first two meetings were to gather information and that in the following two meetings they would examine cost measures, and have more dialogue. He discussed that they would consider how it affected families and municipalities. Mr. Dormitzer showed Boston College Center for Retirement Research data on what other states have done, and said he saw the main areas of discussion were associating benefits with years of service and cost sharing. An actuary would estimate costs. Someone asked who the correct benchmark

comparison is, the private sector or other states, saying private sector had worked on this in the past. Ms. Mitchell said they should not just lower benefits to “rush to the bottom”. Someone mentioned the differences across states in S&P, and suggested considering what they thought retirees and taxpayers should pay and asked about the benchmark. Mr. Duhamel said that this was not just about accounting but about people, and Mr. Mennis agreed and said that it was the people who are important. Anne Wass suggested looking first at vales then at figures, and Mr. Mennis said both could be considered at the same time. Mr. Dormitizer said that the values were complimentary and that solvency was included as a value. The meeting was adjourned. Mr. Mennis asked if people were okay with getting the actuary, and people agreed.